

## Message Text

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60

ORIGIN AID-59

INFO OCT-01 EA-11 ISO-00 NSC-10 TRSE-00 FRB-02 SS-20 L-03

CIAE-00 INR-10 NSAE-00 RSC-01 IGA-02 EB-11 COME-00

OMB-01 PRS-01 /132 R

DRAFTED BY AA/SA:RHNOOTER:MJA

APPROVED BY EA/VN: STEARNS

DAA/SA:GAZIMMERLY (DRAFT)

SA/VN:MGWEDEMAN (DRAFT)

EA/VN:RRICHMOND (DRAFT)

NSC:JBUSHNELL (DRAFT)

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P 240020Z NOV 73

FM SECSTATE WASHDC

TO AMEMBASSY SAIGON PRIORITY

C O N F I D E N T I A L STATE 231211

E.O. 11652: GDS

SUBJECT: IMF MISSION TO VIETNAM

1. NOOTER, BUSHNELL, WEDEMAN, AND HENRY LEE HAD MEETING WITH DON PALMER AND OTHER IMF REPRESENTATIVES AT IMF REQUEST IN ANTICIPATION OF FUND MISSION SCHEDULED TO ARRIVE SAIGON NOVEMBER 29. PALMER SAID THIS MISSION IS IN RESPONSE TO FORMER FINANCE MINISTER TRUNG'S REQUEST DURING NAIROBI ANNUAL MEETING. FUND MISSION WAS ASKED TO REVIEW EXCHANGE RATE SYSTEM AND TO PULL TOGETHER COMPREHENSIVE FINANCIAL PROGRAM INCLUDING FULL RANGE OF FISCAL, MONETARY, BALANCE OF PAYMENTS RELATIONSHIPS (SEPTTEL).

2. U.S. REPRESENTATIVES STATED DESIRABILITY OF IMF STAND-BY AGREEMENT IN NEAR FUTURE SINCE THIS WOULD INCREASE CONFIDENCE OF INTERNATIONAL COMMUNITY IN GVN'S FISCAL AND MONETARY POLICIES. PALMER SAID IMF WAS NOT OPPOSED TO STANDBY, BUT BELIEVED IT WAS PREMATURE AT THIS TIME.

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3. U.S. REPS SUGGESTED POSSIBILITY OF SOME KIND OF "EX-CHANGE SUPPORT FUND" SIMILAR TO CAMBODIA, IN ORDER TO HELP MEET GVN'S UNTIED FOREIGN EXCHANGE NEEDS. PALMER WAS NOT OPPOSED TO SUCH AN ECONOMIC RECOVERY FUND, BUT FELT IN VIEW OF SUBSTANTIAL DONOR RESISTANCE TO UNTIED AID, IT WOULD BE MORE USEFUL TO TRY TO RATIONALIZE VARIOUS DONOR

COMMODITY IMPORT PROGRAMS THAN ATTEMPT TO CREATE UNTIED FUND AT THIS TIME.

4. U.S. REPS STATED OUR WILLINGNESS TO WORK TOWARD REVISED EXCHANGE SYSTEM TO ACCOMMODATE TO OTHER DONORS SO LONG AS DISPROPORTIONATE SHARE OF IMPORTS NOT DIVERTED FROM U.S. SOURCE, AND INDICATED OUR SUPPORT FOR IMF INVOLVEMENT IN REVIEW OF EXCHANGE SYSTEM. IN REPLY TO PALMER'S REITERATION OF LONG-STANDING IMF PREFERENCE FOR UNITY RATE SYSTEM, WE INDICATED DESIRABILITY OF RETAINING REASONABLE (PERHAPS 10 PERCENT) EXPORT SUBSIDY DIFFERENTIAL IN ORDER TO CONTINUE TO GIVE EXPORT INCENTIVE. PALMER REPLIED THAT IMF CONCURS IN OBJECTIVE OF PROVIDING MAXIMUM INCENTIVES FOR EXPORTS, BUT PREFERRED DEVICES OTHER THAN DIFFERENTIAL EXCHANGE RATE.

5. SUGGEST MISSION MAKE MAXIMUM EFFORT TO BE OF ASSISTANCE TO IMF MISSION AND TO WORK WITH IMF REPRESENTATIVE IN SAIGON IN MANNER WHICH WILL LEAD TO AN INCREASING IMF ROLE IN VIETNAMESE ECONOMIC AFFAIRS. WE AND IMF MAY HAVE OCCASIONAL DIFFERENCES ON TECHNICAL RECOMMENDATIONS ALTHOUGH EXPERIENCE ELSEWHERE HAS DEMONSTRATED THAT MOST OF THESE CAN BE RESOLVED BY COMPROMISE (IMF IS SELDOM AS DOCTRINAIRE IN PRACTICE AS IT SOMETIMES PROCLAIMS TO BE REGARDING UNITY RATES, ET CETERA), AND IT IS EXTREMELY IMPORTANT THAT WE AND IMF REINFORCE EACH OTHER IN PRESENTATIONS ON ECONOMIC MATTERS WITH HOST GOVERNMENT. IN SITUATIONS WHERE WE HAVE FAILED TO WORK TOGETHER, THIS HAS FREQUENTLY LED TO NEUTRALIZING ADVICE FROM BOTH SOURCES.

6. WE CONTINUE TO BELIEVE THERE MAY BE NECESSITY FOR ESF TYPE ARRANGEMENT IN VIETNAM, ESPECIALLY IF POL CAN NO  
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LONGER BE HANDLED UNDER CASH BARTER ARRANGEMENT AND MUST BE FINANCED FROM UNTIED FOREIGN EXCHANGE. HOWEVER, WE WILL BE INTERESTED IN IMF'S RECOMMENDATION REGARDING RATIONALIZATION OF COMMODITY IMPORT PROGRAMS WHICH COULD OBVIATE NEED FOR UNTIED FUND FOR TIME BEING. ALSO, WE WILL BE INTERESTED TO SEE IF IMF HAS PRACTICAL RECOMMENDATION FOR SUBSTITUTING OTHER INCENTIVES FOR EXPORT EXCHANGE RATE DIFFERENTIAL SINCE CONTINUED EXPANSION OF

VIETNAMESE EXPORTS IS ESSENTIAL; IF NOT, THEN WE BELIEVE EXPORT DIFFERENTIAL SHOULD BE MAINTAINED. ALTHOUGH WE HAVE NO OBJECTION TO GVN MODIFYING EXCHANGE SYSTEM SO THAT NEW SYSTEM COULD BE APPROVED BY IMF BOARD IN JANUARY, WE BELIEVE DEVELOPMENT OF 1974 FINANCIAL PLAN MUCH

MORE IMPORTANT FOR THIS IMF MISSION THAN RAPID PROGRESS IN CHANGING EXCHANGE SYSTEM, WITH WHICH WE HAVE NO MAJOR PROBLEM' KISSINGER

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